

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

September 1, 1938

Money Market in August

Since the latter part of July there has been an accelerated flow of gold to this country accompanying weakness in the principal foreign exchanges. The weakness in the exchanges appears to have been precipitated by a renewed inflow of capital from abroad, but an underlying influence has been the continued heavy excess of merchandise exports from this country over imports. Until recently the effect of payments for our large balance of merchandise exports on the foreign exchanges and gold movements was considerably modified by the use of foreign funds previously accumulated in this country.

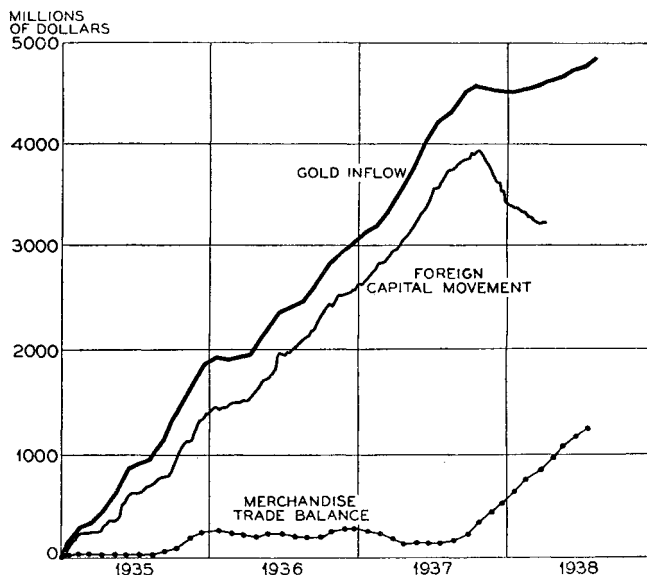
The accompanying diagram shows cumulative figures since the beginning of 1935 for the gold movement to this country from abroad and for two of the principal factors causing the gold inflow—the movement of capital between this and other countries, and the excess of merchandise exports from the United States over merchandise imports. There are a number of other less important, although substantial, factors, such as silver purchases from foreign countries, tourist expenditures, and income from foreign investments. The figures on the movement of foreign capital to and from this country are shown only through March, as subsequent data have not yet been published.

As this diagram shows, the inflow of foreign capital to the United States was the dominant factor causing the heavy inflow of gold from the beginning of 1935 until the autumn of last year. Merchandise exports and imports had been roughly in balance, except for some surplus of exports in the latter part of 1935 and some surplus of imports in the early months of 1937. Since the spring of last year, however, there has been a drastic curtailment of merchandise imports to this country, accompanying the recession in business activity here, while seasonal shipments of cotton, grain, and other commodities last autumn, added to an already relatively high level of merchandise exports, carried the export volume to the highest level in several years. By last October the excess of exports over imports rose to a rate in excess of \$100,000,000 a month. About the same time there was a reversal in the movement of foreign capital to this country, apparently reflecting in part actual withdrawals of foreign balances induced by rumors of an impending further devaluation of the dollar, and in part the use of foreign balances here to pay for the excess of merchandise shipments from this country over im-

ports. The gold inflow halted, and for a short time at the end of 1937 there was a small outflow of gold from this country.

During the early months of this year merchandise imports continued to decline, but there was a roughly parallel decline in exports, partly seasonal in character, so that the excess of exports over imports continued to run around \$100,000,000 a month, although recently there has been a slight reduction from that figure. Payments due this country on merchandise trade were largely counterbalanced in the first quarter of the year and apparently to a lesser extent also in the second quarter by a reduction in the volume of foreign funds in this country. But the principal foreign exchanges weakened gradually against the dollar, and gold shipments to the United States were resumed on a moderate scale.

In the past few weeks the renewed flight of foreign capital to this country, together with payments for the continued large merchandise export balance of this country, has put heavy pressure on the principal foreign exchanges and accelerated the flow of gold to the United States. Gold imports and releases from earmark during August have been in the neighborhood of \$100,000,000,



Principal Factors Causing Gold Inflow into the United States (Cumulative movements of gold, foreign capital, and excess of merchandise exports over imports since January 1, 1935)

and the total increase in the gold stock of this country, including gold received from mines in this country and other domestic sources, has been the largest for any month since last September.

Largely because of payments by the Government for incoming gold, excess reserves of member banks have again turned upward, following the reduction between July 13 and August 3, caused by an excess of Treasury receipts over Treasury disbursements and the beginning of the seasonal rise in the amount of currency in circulation. In the two weeks ended August 24 there was a net increase of \$60,000,000 to \$2,980,000,000.

MONEY RATES

Money market conditions remained generally easy throughout the month of August. Treasury bill rates declined after the first week of August and were lower at the end of August than at the end of July. Other principal money rates remained practically unchanged.

Money Rates in New York

	Aug. 31, 1937	July 30, 1938	Aug. 30, 1938
Stock Exchange call loans.....	1	1	1
Stock Exchange 90 day loans.....	*1 1/4	*1 1/4	*1 1/4
Prime commercial paper—4 to 6 months	1	1 1/4	1 1/4
Bills—90 day unindorsed.....	1 1/8	1 1/8	1 1/8
Customers' rates on commercial loans			
(Average rate of leading banks at			
middle of month).....	1.67	1.63	1.63
Average yield on Treasury notes (3-5			
years).....	1.54	0.70	0.74
Average yield on Treasury bonds (more			
than 8 years to maturity or call date) .	2.66	2.33	2.33
Average rate on latest Treasury bill sale			
91 day issue.....		0.06	0.05
117 day issue.....	0.33	....	....
Federal Reserve Bank of New York re-			
discount rate.....	1	1	1
Federal Reserve Bank of New York			
buying rate for 90 day indorsed bills..	1/2	1/2	1/2

* Nominal

MEMBER BANK CREDIT

There has been some evidence during the past month of an upward tendency in the volume of bank credit. Commercial loans in weekly reporting member banks reached on August 3 the lowest point since early 1937, but in the following three weeks showed a moderate increase which apparently was partly seasonal in character. The increase during this period occurred at the reporting New York City banks and amounted to \$37,000,000. Loans to security brokers and dealers also increased moderately, as did investments of the weekly reporting banks. Apparently reflecting a strong investment demand for Government securities from other sources, holdings of direct obligations of the Government by the reporting banks increased only \$65,000,000 during the four weeks ended August 24, although net sales of Treasury bills during that period amounted to \$200,000,000. On the other hand, holdings of Government guaranteed securities increased slightly further, despite the retirement of \$50,000,000 of Home Owners' Loan Corporation bonds, and there was also a small increase in other investments. Altogether, the total loans and investments of weekly reporting member banks increased \$123,000,000 at New York City banks, and \$157,000,000 at all reporting member banks, during the four weeks ended August 24.

GOVERNMENT SECURITIES

Prices of Treasury bonds advanced further in the first half of August, and the average price of issues of more than 8 year term to call date or maturity showed a net rise of 1/4 point for the period. At that time the price of the 2 3/4 per cent bonds of 1958-63, which were issued last June, reached a new high of 102 16/32. In the latter half of the month, prices developed somewhat more irregularity, as buying demand lessened because banks and other investors showed a tendency to await an announcement from the Treasury concerning its September quarterly financing plans before making additional commitments. On August 29 and 30, there was some decline in Treasury bond prices, as in other bond and stock markets here, which was attributed to increased tension over the European situation, and consequently the average price of Treasury bonds closed the month slightly lower than at the end of July.

In the Treasury note market, activity was induced by buying interest in the December maturity, which is being appraised by the market for its "rights" value in exchange for new issues; a part of this buying was reported to have represented switches out of the most recent issue of Treasury bonds. Aside from the advance in the December issue, other Treasury notes moved slightly lower during August, and the average yield on 3 to 5 year maturities closed the month at 0.74 per cent, a rise of 0.04 per cent from the end of July.

During August, five more Treasury bill issues of \$100,000,000 each were floated in successive weeks, in replacement of weekly maturities of \$50,000,000. Consequently, the total outstanding volume of Treasury bills rose to \$1,300,000,000, as compared with the recent low of \$1,000,000,000 on July 20, and is now composed of thirteen issues of \$100,000,000 each, of approximately 3 month term, maturing between September 7 and November 30. The average rate on the bill issue dated August 3 rose to 0.062 per cent, but the average rates on subsequent weeks' sales were somewhat lower at 0.044 to 0.048 per cent.

COMMERCIAL PAPER AND BILLS

The total amount of new commercial paper coming into the open market continued to diminish during August. There was some increase in the amount of paper originating with concerns associated with the movement of crops, but the increase was less than was expected by the dealers. At the same time, the investment inquiry for open market paper remained active, as banking institutions continued to exert considerable effort to place into active use their large holdings of surplus funds. Some replacement of open market borrowings with direct bank loans was also reported. The short supply of and active demand for commercial paper, however, had no material effect on rates; average grade prime 4 to 6 month paper continued to be sold primarily at 3/4 per cent, although there were occasional transactions in less well known paper at slightly higher levels, and in especially choice paper at slightly lower levels. Commercial paper dealers reported a total of \$210,700,000 of paper outstanding at the end of July, or about 6 per cent less than June, and approximately 35 per cent less than a year ago.

Extreme quiet continued to prevail in the bill market during August as a result of the small quantity of bankers acceptances which came into dealers' hands. No change occurred in either the active investment demand for bills or in the rates quoted. At the end of July bankers acceptances outstanding totaled \$265,000,000, or approximately the same amount as at the end of June, but approximately 25 per cent less than a year ago; most of the decline during the past year was caused by a reduction of \$65,000,000 in import bills.

(Millions of dollars)

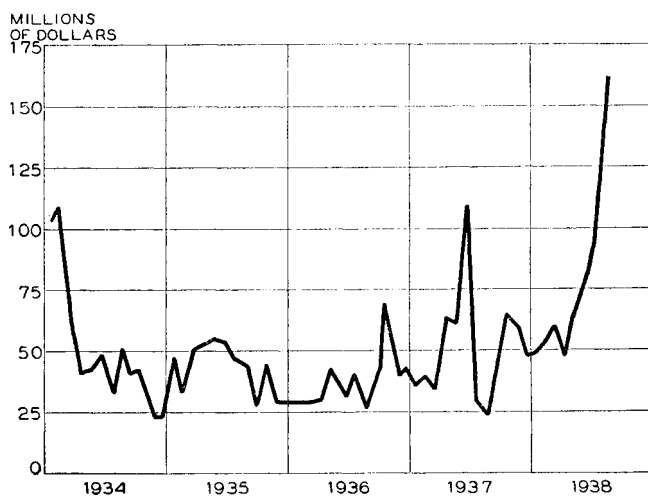
Type of acceptance	July 31, 1937	June 30, 1938	July 30, 1938
Import.....	143	79	78
Export.....	71	63	63
Domestic shipment.....	11	9	10
Domestic warehouse credit.....	54	49	50
Dollar exchange.....	2	1	1
Based on goods stored in or shipped between foreign countries.....	71	63	63
Total.....	352	264	265

Foreign Exchanges

During August there was an increased movement of European funds into gold and dollars, induced by disturbed political conditions abroad.

The decline of sterling against the dollar, which had been in progress since June 15, was accelerated early in August and the pound fell rapidly from \$4.91 $\frac{7}{8}$ on July 30 to \$4.87 $\frac{1}{8}$ on August 13. At this level large-scale gold arbitrage operations to New York took place to absorb offerings of sterling against dollars, and the currency held steady close to \$4.88 for a week before falling again at the month end to a new three year low at \$4.85 $\frac{3}{8}$. In the London gold market the price of gold at "fixing", rose from 141s 6d on July 30 to 142s 9d on August 13, declined thereafter for a time as the fall in sterling was halted but rose sharply near the end of the month to 143s 3 $\frac{1}{2}$ d, the highest level since May, 1935.

Turnover in the London gold market at the price fixing time reached a larger volume than for any month since the stabilization of the dollar in January, 1934, as the accompanying diagram indicates. Approximately \$161,800,000 of gold was traded at "fixing" for the period August 1 to 29, and large amounts changed hands in private dealings after "fixing". This gold turnover, which represented principally the demand for gold for hoarding purposes but partly arbitrage transactions and some day-to-day speculation, considerably exceeded that of June, 1937, when \$108,600,000 in gold was traded at the "fixing" at the peak of the dehoarding movement, and compares with a total of only \$24,200,000 traded in August, 1937. The turnover of gold on August 3, when 1,048 bars, valued at approximately \$14,700,000 changed hands at the "fixing", reached its highest level for any single day, with one exception, since 1933.



Approximate Dollar Value of Gold Sold at Fixing Time in London Market (August figure is for first 29 days of the month)

The premium on gold above the shipping parity to the United States was eliminated on August 3 for the first time since April 7 of the current year, following the decline of the premium from 1s $\frac{1}{2}$ d on June 15 of this year to 1 $\frac{1}{2}$ d on July 30, and sizable amounts of gold were shipped from London to New York during August.

Weakness in the French franc became pronounced again in August, and the cross rate on London advanced on August 9 to 178.92 francs per pound as compared with 178.15 on July 30. In New York, the franc reached a new eleven year low of \$0.0272 $\frac{1}{4}$ on August 13, accompanying the decline in sterling during the first half of the month. The franc-sterling cross rate was maintained just under 179 francs to the pound until August 19 when, following a statement of Premier Daladier that the French Government was contemplating neither exchange control nor a further downward revaluation of the currency, the outflow of capital from France diminished in intensity. Premier Daladier's intention to modify the forty hour week in France, expressed later in a radio address, was followed by some further improvement in the position of the franc. The franc closed the month at 178.33, in London and at \$0.0272 $\frac{3}{8}$ in New York.

Swiss exchange remained relatively unaffected and after declining from \$0.2292 on July 30 to \$0.2287 $\frac{1}{2}$ on August 6 firmed again to \$0.2293 $\frac{1}{2}$ before weakening in sympathy with sterling to \$0.2279 $\frac{1}{2}$. In terms of sterling the Swiss franc appreciated from 21.46 to the pound on July 30 to 21.28, and the Dutch guilder also appreciated against sterling but to a lesser extent. Against the dollar, however, the guilder declined from \$0.5491 $\frac{1}{2}$ on July 30 to \$0.5445 at the end of August. The Belgian currency, which had been strong since the end of May, weakened sharply on August 10 and remained under the gold point of \$0.1684 $\frac{1}{2}$ between August 12 and August 19 before recovering to \$0.1688 at the month end. Short sales of sterling against belgas were reported to have provided part of the strength for the currency during the previous

six weeks, but when some of these positions in sterling were covered, the belga fell temporarily to the gold export level.

Among the non-European exchanges, the Canadian dollar ruled at a discount of about $\frac{3}{8}$ per cent for the greater part of the month, before firming to $\frac{1}{8}$ per cent discount, but the Argentine free peso weakened from \$0.2620 at the end of July to \$0.2570 in August. The latter decline was partly associated with the suspension of the Argentine Government's plans to borrow at long term in the New York market.

Gold Movements

The dollar equivalent of the London gold price was at or very close to the theoretical gold shipment point to the United States throughout August and the movement of gold from England to the United States was resumed, in substantial volume, for the first time since March and early April.

Preliminary figures for imports affecting the United States gold stock in August indicate that receipts at New York totaled \$77,400,000, of which \$61,100,000 came from England, \$13,500,000 from Canada, \$2,100,000 from Belgium, and \$700,000 from Australia. On the West Coast \$5,800,000 was received from Japan, \$1,200,000 from Australia, and \$1,500,000 from Hong Kong. In addition, there was a gain to the gold stock through the release of \$12,500,000 from foreign earmarked holdings and through domestic receipts of newly mined and scrap gold. As a result, the gold stock was increased by approximately \$120,000,000 during August.

Security Markets

Stock prices moved irregularly in August, generally at quotations somewhat below those reached toward the end of July on the upswing which began June 20. Near the end of the first week of August, industrial shares advanced to reach slightly higher quotations than on July 25, while railroad and public utility shares, although also firmer after the moderate recession of late July and early August, remained below the July highs. The second week of August witnessed a general downward reaction in stock prices averaging about 7 per cent, but subsequently through the 25th there were net gains in all classes of stocks. In the closing days of the month stock prices again turned generally downward and reached about the same quotations as in the second week of August. At the close of August, industrial stocks averaged 6 per cent below their 1938 highs reached early in the month, while railroad shares and public utility stocks were 11 per cent below their highs which were reached in July. Trading on the New York Stock Exchange was considerably less active in August than in July. On no day did the turnover exceed $1\frac{1}{2}$ million shares, and for the month averaged 870,000 shares per day, a decline of 820,000 shares from the July average, although considerably larger than in May when sales averaged only 600,000 shares.

Domestic corporation bond prices held within a narrow range during August. High grade railroad bonds

recovered an additional 1 point of the April-June decline, while high grade industrial and public utility issues showed slight declines. Lower grade railroad issues declined in the first half of the month but subsequently recovered to within 1 point of the July recovery peak, while other issues showed no material change.

New Financing

New corporate security issues during the month of August totaled about \$315,000,000, an increase of about 72 per cent over July, some \$20,000,000 more than in June, and the largest amount since June, 1937. The larger public offerings of the past month, which were bonds or debentures of good investment grade, were well received and quickly quoted in the market at premiums ranging from small fractions to several points. Most of the month's corporate financing—a much greater proportion than in the two preceding months—was for refinancing purposes, and only some \$95,000,000, or 30 per cent of the total, was intended for new capital uses. In June and July, issues for new capital purposes had constituted 62 per cent of the total, or approximately the same proportion as a year ago. Interest rates on new bond issues continued near the lowest levels of recent years. Although the volume of financing seems likely to decrease in September, a number of large issues are being prepared for marketing during the fall.

Corporate issues during August of \$10,000,000 and over were as follows:

\$14,350,000	Hackensack Water Company refunding $3\frac{1}{2}$'s of 1968, placed privately
32,000,000	Indianapolis Power and Light Company first mortgage $3\frac{3}{4}$'s of 1968 at par and serial notes of 1939-48
5,500,000	
30,000,000	Toledo Edison Company first mortgage $3\frac{1}{2}$'s of 1968 at $101\frac{1}{2}$ and
6,500,000	debenture 4's of 1948 at 100%
10,000,000	Public Service Electric and Gas Company first and refunding mortgage $3\frac{1}{4}$'s of 1968 at $104\frac{3}{4}$
27,982,000	New York Steam Corporation first mortgage $3\frac{1}{2}$'s of 1963 at par, guaranteed by Consolidated Edison Company
14,000,000	Ohio Oil Company debenture $3\frac{1}{4}$'s of 1953 and
7,000,000	serial notes of 1939-45, both placed privately
17,000,000	West Penn Power Company first mortgage $3\frac{1}{4}$'s of 1968, by private sale
25,000,000	Phillips Petroleum Company convertible debenture 3's of 1948 offered to stockholders at par
10,000,000	Crucible Steel Company of America debenture $4\frac{1}{2}$'s of 1948 at $99\frac{1}{4}$
33,000,000	Commonwealth Edison Company first mortgage $3\frac{1}{2}$'s of 1968 at $103\frac{1}{2}$ (\$39,250,000 convertible debenture $3\frac{1}{2}$'s of 1958 will be offered to stockholders in September)
20,000,000	Lone Star Gas Corporation convertible debenture $3\frac{1}{2}$'s of 1953 at 102
10,000,000	Gulf States Utilities Company first mortgage and refunding 4's of 1966 at 104
25,000,000	Consolidated Oil Corporation 12 year obligations placed privately

Awards of long term municipal obligations in August totaled about \$50,000,000. Prominent among the temporary municipal borrowings was a \$30,000,000 issue of New York City 0.35 per cent revenue bills, due November 1, 1938, which was sold to 26 banks.

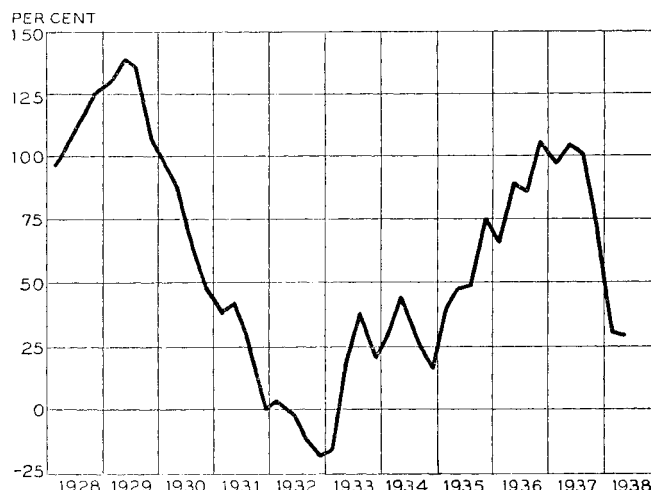
Business Profits

Combined second quarter net profits, less deficits, of 265 industrial and mercantile companies whose earnings are available on a quarterly basis back to 1932 showed a decline of 70 per cent from the corresponding period a year ago. Aggregate profits in the second quarter were somewhat larger than in the first quarter, but the rise appears to have been less than seasonal and consequently this bank's seasonally adjusted index of business profits, shown in the accompanying diagram, declined slightly further in consonance with the seasonally adjusted index of industrial production.

As was the case in the first quarter, the aviation companies and the bakery products group showed gains in profits during the second quarter as compared with a year ago. Four groups of companies—automobile parts and accessories, clothing and textiles, coal and coke, and steel, continued to operate at a loss in the second quarter of this year, and the railroad equipment group also sustained a deficit in place of the net profit of the first quarter. Aside from these deficits, the largest percentage declines in profits between the second quarters of 1937 and 1938 were in the automobile, building supply, household equipment, and machinery and tool groups.

The accompanying table also shows earnings in the first half year for 393 industrial and mercantile companies whose earnings statements are available back to 1932. This list is more inclusive than the quarterly compilation, having in addition to those concerns reporting quarterly, a number of corporations which make it a practice to issue semiannual reports. The aggregate profits shown by this group for the first six months of 1938 were 69 per cent below the total for the corresponding period of last year and 23 per cent under the first six months of 1934 when general business activity was at a somewhat similar level. The same five groups of companies that showed deficits for the second quarter of this year registered deficits for the half year, as against net profits a year ago, and the other large declines in profits were the same as those reported for the second quarter. The adverse comparison with the 1934 period was due to deficits suffered by some groups this year and to substantial declines in profits in the automobile, advertising and publishing, building supply, chemical and drug, household equipment, retail trade, and cigar company groups. A number of groups of companies, however, showed sizable increases in profits over the 1934 level, notably, electrical equipment, machinery and tools, motion pictures and amusements, and petroleum concerns.

Of the individual companies included in the table, 14.7 per cent of the total number for the second quarter, and 13.5 per cent for the first six months, either increased their profits, converted last year's deficits into profits this year, or reduced last year's deficits. The remaining companies, 85.3 per cent of the total for the second quarter and 86.5 per cent for the first six months, either had smaller profits than a year ago, suffered deficits this year as against profits last year, or increased the size of last year's losses. For the first half year, 39 per cent of the companies tabulated reported deficits, as compared with only 7 per cent last year.



Index of Profits of 167 Industrial and Mercantile Corporations,
Adjusted for Seasonal Variation (1925-29
average = 100 per cent)

The combined net deficit after all charges of Class I railroads during the second quarter amounted to 75 million dollars. In the first quarter the deficit had amounted to 106 million dollars, so that the deficit for the half year reached 181 million dollars, or 56 million more than in the first half of 1932 and 30 million more than for the full year 1932, which was the previous low

(Net profits in millions of dollars)

Corporation group	Second quarter				First six months			
	1932	1934	1937	1938	1932	1934	1937	1938
Advertising, printing and publishing . . .	1.9	2.8	3.4	1.9	4.8	4.5	6.8	3.3
Automobiles	0.5	42.3	88.5	23.1	1.6	71.0	149.4	26.9
Automobile parts and accessories . .	-1.5	9.6	19.5	1.3	-12.1	21.2	53.7	-3.9
Aviation	-2.0	0.6	0.8	2.4	-2.7	-0.6	1.3	4.3
Bakery products . . .	7.2	4.8	5.4	5.8	14.1	9.2	9.2	10.2
Building supplies . . .	3.1	1.9	10.3	1.0	4.3	4.7	22.2	3.4
Chemicals and drugs . .	11.6	25.5	48.7	19.3	32.5	53.3	91.6	41.5
Clothing and textiles . .	3.5	0.3	0.2	0.6	15.5	2.8	9.7	-8.1
Coal and coke	-0.6	0.5	0.6	-0.7	-1.6	2.1	0.4	-1.7
Electrical equipment . .	0.1	8.1	25.8	9.1	2.9	12.4	48.5	19.2
Food products (excl. bakery products) . .	18.3	19.4	22.3	21.0	45.6	46.8	47.5	45.9
Household equipment	-0.8	1.1	1.7	0.2	-3.2	15.5	29.2	8.7
Machinery and tools . . .	-2.4	3.5	11.8	2.2	-10.4	4.7	29.1	8.2
Metals and mining (excl. coal and coke)	0.8	10.1	24.3	9.8	-1.5	27.1	65.6	31.2
Motion pictures and amusements	-6.3	1.7	6.9	4.5	-4.6	12.2	28.8	18.9
Office equipment	1.0	3.4	5.1	3.5	3.0	6.3	10.0	7.4
Paper and paper products	0	0.8	1.8	0.9	0.5	2.2	4.8	2.8
Petroleum	15.5	14.4	45.8	28.1	16.7	30.5	93.0	60.2
Railroad equipment . . .	-1.4	1.3	8.3	-0.9	-4.5	-1.0	18.9	-1.0
Retail trade	-35.8	20.2	68.6	-9.9	-68.0	15.3	140.6	-15.1
Steel	0.7	1.3	0.8	0.8	1.3	1.8	1.3	1.3
Tobacco (cigars)	2.0	3.4	5.4	1.8	0.6	4.4	13.4	3.3
Miscellaneous								
Total (265 cos. 2nd quar.)	2.2	175.8	406.0	122.0	-1.8	368.8	909.4	282.5
(393 cos. 1st half)								
141 Class I Railroads, net income	-70.5	-7.9	23.5	-74.9	-125.3	-23.2	38.9	-181.3
91 Telephone companies, net operating income	*	49.4	58.6	52.8	*	96.9	118.9	102.8
64 Other public utilities, net income	65.5	55.2	69.3	57.4	142.3	118.8	142.3	122.0

* Not available. —Deficit.

year for railroad earnings. Latest available data for individual railroads indicate that only seven of the 47 companies which have annual operating revenues above 25 millions had any net income, after depreciation charges, in the first five months of this year. Net operating income of 91 large telephone companies and net income of 64 other public utilities were somewhat smaller than last year, both for the second quarter and the first six months.

Building

After declining 40 per cent in the previous month, the daily average rate of building and engineering contracts awarded in the New York and Northern New Jersey area advanced 26 per cent from June to July. Residential building contracts showed a further increase of 21 per cent, and there were marked gains in contracts for commercial and industrial buildings and for public utility construction projects. Contracts for buildings for public purposes, however, were about half as large as in June, and there was a small decline in public works awards. The July contract total was 16 per cent below a year ago, owing primarily to a reduction of 63 per cent in heavy engineering construction. Residential building contracts, however, were 70 per cent above July, 1937, and non-residential building projects also compared favorably with last year.

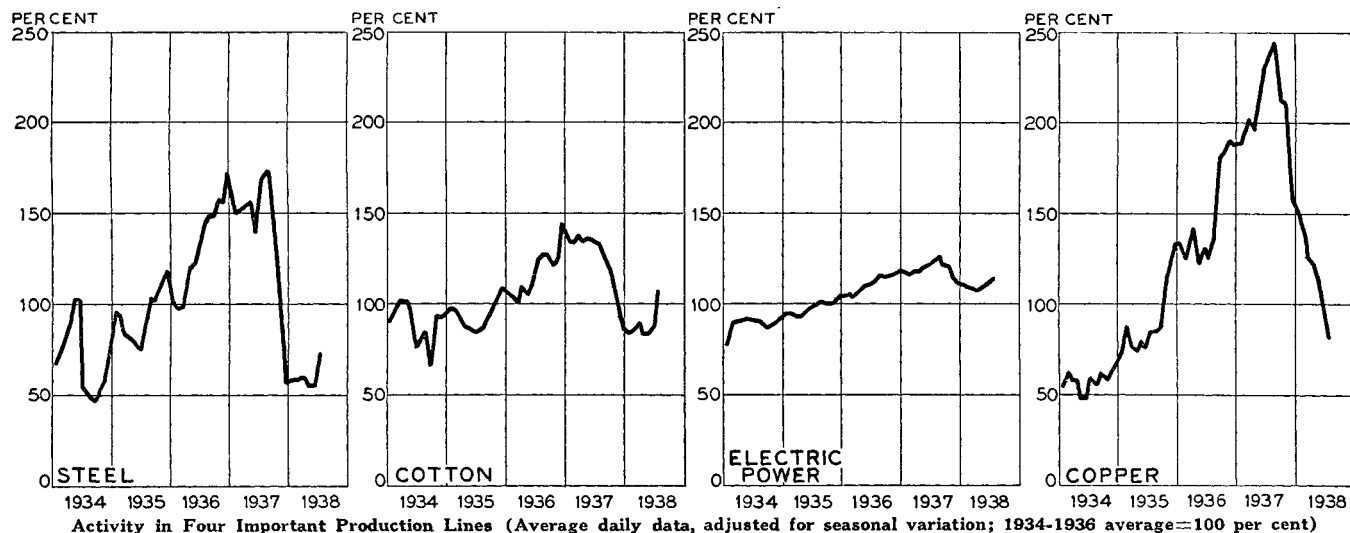
In the 37 States covered by the F. W. Dodge Corporation the daily rate at which construction contracts were awarded was little changed from June to July. Residential building contracts rose 7 per cent, while nonresidential contracts declined 8 per cent, and heavy engineering work was in virtually the same volume as a month earlier. Compared with July, 1937, total contracts were 23 per cent lower, as reductions of 46 per cent in non-residential contracts and 19 per cent in heavy engineering construction were only partially offset by a 13 per cent increase in residential building.

During the first half of August the daily rate of construction awards in the 37 States declined about 16 per cent, or somewhat more than is usual at this time of year. All types of construction participated in the decline, nonresidential contracts showing the largest reduction.

Production and Trade

Information thus far available indicates that there was a further rise in business activity during August, although probably of lesser extent than in July. Stimulated by an increased flow of new orders, steel mills continued a gradual expansion of output, and operations averaged somewhat more than 40 per cent of capacity as compared with 33½ per cent in July and 28½ per cent in June. There was also a further rise in electric power generation, and bituminous coal mining was seasonally higher. However, it appears that cotton mill operations leveled out following the considerable rise in July. Sales of cotton goods ran well below production until late in the month when the volume of business expanded accompanying a firmer market for raw cotton. The volume of freight carried by railroads was not greatly changed between July and August. Automobile production continued a seasonal decline, although sales of cars, both new and used, were reported to have been maintained unexpectedly well. It was indicated that volume production of new models will begin even earlier than in the last few years. Department store trade, however, appears to have increased by less than the usual seasonal amount during the first three weeks of August.

After showing little change during the preceding two months, the general level of production and trade advanced substantially in July. Some of the principal developments of the month are illustrated in the accompanying diagram which shows seasonally adjusted monthly indexes of steel production, cotton consumption, electric power generation, and copper output. Steel production was up sharply despite a usual tendency to decline between June and July. Pig iron and bituminous coal, which are allied with steel, were also produced in larger quantities than in June. There was a 12 per cent increase in cotton mill operations following a sudden spurt in sales, and other branches of the textile industry also were more active. Electric power generation, which on a seasonally adjusted basis had risen moderately in May and June, recovered further in July, ostensibly reflecting a rather general tendency for industrial activity to increase. Among industries which curtailed opera-



tions further during July, the production and refining of nonferrous metals was conspicuous. Copper output declined 22 per cent to the lowest level since the first part of 1935, and production of lead also was sharply reduced; a reduction in zinc output, however, was largely of a seasonal nature. Automobile assemblies also contracted in July as the season for the introduction of new models approached, but tire production rose contrary to the usual experience.

There was a moderate gain in the distribution of goods by railway during July, and the volume of retail trade appears to have declined slightly less than usual. Department store sales in this district were reduced seasonally, but for the country as a whole the drop was somewhat smaller than in other years, and this was true also for chain stores other than grocery. Mail order sales and sales of grocery chains were approximately unchanged between June and July after seasonal adjustment.

(Adjusted for seasonal variations, for estimated long term trend, and where necessary for price changes)

	1937	1938		
	July	May	June	July
Industrial Production				
Steel.....	113	36	36	48
Copper.....	121	58	50	42 _p
Passenger cars.....	98	35	31	30
Motor trucks.....	116	46	46	51
Bituminous coal.....	87	61	62	66 _p
Crude petroleum.....	96	83	81	86 _p
Electric power.....	97	84	85 _p	87 _p
Cotton consumption.....	113	70	74	91
Wool consumption.....	93 _r	58	75	85 _p
Shoes.....	116	105	88	105
Meat packing.....	69	80	78	81
Tobacco products.....	95	87	82	86
Cement.....	59	54	50	54
Machine tool orders*.....	169	61	61	89
Employment				
Employment, manufacturing, U. S.....	104	79	77	79 _p
Employee hours, manufacturing, U. S.....	94	63	62	65 _p
Construction				
Residential building contracts.....	35	30	31	39
Nonresidential building and engineering contracts.....	72	63	47	47
Primary Distribution				
Car loadings, merchandise and misc.....	88	69	69	70
Car loadings, other.....	95	61	63	68
Exports.....	89	90	85	84
Imports.....	104	59	67	64
Distribution to Consumer				
Department store sales, U. S.....	90	76 _r	80	81
Department store sales, 2nd District.....	88	74 _r	78 _r	77
Chain grocery sales.....	90	101	100	98 _p
Other chain store sales.....	101	86	88	94 _p
Mail order house sales.....	100	90	86	87 _p
New passenger car registrations.....	99 _r	43	39	42 _p
Money Payments				
Bank debits, outside New York City.....	64	57	59	56 _p
Bank debits, New York City.....	38	34	39	35 _p
Velocity of demand deposits, outside New York City**.....	69	61	60	61
Velocity of demand deposits, New York City**.....	48	38	42	40
General price level†.....	163	152	152	154 _p
Cost of living†.....	151	148	149	149 _p
Composite index of wages†.....	110	111 _r	111	110 _p

_p Preliminary. _r Revised. *Not adjusted for price changes.
 **1919-1925 average = 100. †1913 average = 100; not adjusted for trend.
 †1926 average = 100; not adjusted for trend.

Foreign Trade

Merchandise exports from the United States in July amounted to \$228,000,000, or 15 per cent below the July, 1937 figure, and imports valued at \$141,000,000 showed a decline of 47 per cent from last year. The excess of

exports of \$87,000,000, although somewhat smaller than the average for the preceding months of this year, compares with an export balance of only \$3,000,000 in July, 1937. After allowing for price changes and the usual seasonal variations, the aggregate quantity of foreign merchandise trade appeared to have declined somewhat further from June to July; as compared with a year ago, a decline of 4 per cent was indicated in the volume of exports, and a reduction of about one-third in the quantity of imports.

Agricultural exports showed an increase in value over July, 1937 of 66 per cent, while nonagricultural exports declined 26 per cent, thus extending the tendencies exhibited by these two main groups during recent months. Nearly all leading individual exports of agricultural origin, with the exception of tobacco, were larger in quantity and value than a year ago, although shipments of crude foodstuffs, chiefly grains, continued to be the principal factor. Foreign takings of American cotton were 45 per cent greater in volume, but the increase in the value of cotton shipments was held to 12 per cent by the decline in prices during the past year. Exports of the majority of nonagricultural products, on the other hand, were smaller in quantity and value than in July, 1937; the principal exceptions were aircraft, certain industrial machinery, and refined petroleum products.

All the major classifications of imports in July continued smaller than a year ago, the largest relative decline occurring in the semimanufactures group, including notably such items as tin, nickel, copper, lumber products, leather, and cut diamonds. Among the crude materials, imports of wool, rubber, and hides and skins showed decreases in value of approximately 70 per cent, while receipts of pulpwood, tobacco, and uncut diamonds were larger in both volume and value than in July, 1937. Raw silk imports increased slightly in quantity but declined in value, due to lower silk prices this year. Receipts of foreign grains remained negligible, and imports of cocoa, although larger in amount, decreased substantially in value. Coffee and cheese imports, on the other hand, were larger in quantity and value than a year ago.

Commodity Prices

Owing mainly to declines in prices of agricultural products during the first half of August, Moody's index of 15 actively traded commodities on August 15 was at a level about 5 per cent below the high point reached toward the end of July. During the remainder of the month, however, there was an irregular recovery in grain and cotton prices, accompanying announcements by the Government of subsidy and loan programs, so that the net loss in Moody's index was reduced to about 3 per cent for the month as a whole.

The cash quotation for the Number 1 grade of wheat at Minneapolis declined 12¾ cents during the first half of August to 71 cents a bushel, the lowest level since October, 1933. The bulk of this loss occurred after the release of the Government August 1 crop estimates, which placed 1938 wheat production at 956,000,000 bushels, or some 20,000,000 bushels above trade expectations. During the

remainder of the month cash wheat moved irregularly higher to 73 $\frac{3}{8}$ cents, as compared with 83 $\frac{3}{4}$ cents at the end of July. This recovery was in part accounted for in trade circles by the increased benefit payments offered farmers cooperating with the 1939 Government wheat program, and by the reduction in the acreage limit on next year's crop. Under the 1938 wheat program complying farmers were offered 12 cents a bushel on their allotment, while next year payments of 26 to 30 cents a bushel will be made. The program is designed to limit 1939 acreage to 55,000,000 acres, which compares with 81,000,000 acres seeded this year. Further support to wheat prices was offered by the announcement of a Government subsidy program to facilitate the export of 100,000,000 bushels of surplus wheat during the current crop year.

Cash corn at Chicago also reached a low point toward the middle of the month, at 51 cents a bushel, but later recovered to close August at 53 $\frac{5}{8}$ cents, compared with 57 $\frac{7}{8}$ cents a month earlier. The Government loan rate on corn, announced toward the end of August, was placed at 57 cents a bushel, or 7 cents above the rate on the 1937 crop. Cotton prices showed a generally similar movement during the month. The spot quotation at New York declined to 8.25 cents a pound on August 13, but subsequently advanced to 8.46 cents, or 26 points below the end of July. The announcement on August 27 by the Commodity Credit Corporation of the Government loan program on the 1938 cotton crop, placed the loan rate at 8.30 cents a pound for the middling $\frac{7}{8}$ inch grade, with a range from 5.30 cents to 10.75 cents on other grades.

With respect to other principal wholesale commodities, rather substantial losses occurred in livestock prices, while there were gains during the month in the prices of hides and raw sugar. Raw silk declined as low as \$1.71 $\frac{1}{2}$ a pound during the course of the month, but closed at \$1.78 $\frac{1}{2}$, slightly below a month ago.

Further net gains were shown in scrap steel prices during August. The quotation at Pittsburgh rose 25 cents further to \$15.50 a ton, or \$4.75 above the low reached last May, while at Chicago scrap steel advanced \$1.00 a ton to \$13.75. No material changes occurred in prices of nonferrous metals during August.

Employment and Payrolls

Although ordinarily a moderate decline occurs from June to July, the volume of employment outside agriculture was little changed this year, according to the estimates of the United States Department of Labor. In manufacturing establishments, working forces were augmented by about 40,000 persons, as against a usual decline of approximately the same proportions, and payrolls were also contraseasonally larger. The gain in factory employment was offset by reductions in non-manufacturing industries, mainly retail trade and mining. In retail trade, however, a decrease in employment is usual in July, and the decline this year appears to have been smaller than in other recent years.

Among individual manufacturing industries, the chief gains in employment occurred in canning, shoe, textile, and men's clothing plants. The most pronounced reductions occurred in factories producing machinery, auto-

mobiles, and women's clothing. In comparison with July, 1937, factory employment was 25 per cent lower and payrolls 33 per cent lower.

In New York State also, manufacturing employment and payrolls showed an increase from June to July, contrary to the usual experience. Working forces were up about 1 per cent and wage disbursements about 2 per cent. There were sharp gains, mainly of a seasonal nature, in the number of workers engaged in canning and preserving establishments, and in the men's clothing and fur industries. In comparison with a year ago, however, there were declines of 18 per cent in factory employment and 24 per cent in payrolls.

Department Store Trade

Total sales of the reporting department stores in this district during the first three weeks in August were about 12 per cent lower than in the corresponding period of 1937, and it appears that trade underwent considerably less than the usual seasonal rise from the July level.

July sales of the reporting department stores in this district totaled 13.4 per cent less than last year; after adjustment for differences in number of shopping days, the decline in average daily sales from a year ago was about the same as in June, although a smaller decline had been indicated by reports for the early part of July. Total sales of the leading apparel stores in this district were 17 per cent lower than last year; average daily sales showed about the same decrease from last year as in June.

Stocks of merchandise on hand in the department stores, at retail valuation, were 12.4 per cent lower at the end of July, 1938, than at the end of July, 1937.

Locality	Percentage change July, 1938 compared with July, 1937		Per cent of accounts outstanding June 30 collected in July	
	Net sales	Stock on hand end of month	1937	1938
New York and Brooklyn.....	-13.2	-13.1	47.8	46.2
Buffalo.....	-19.8	-8.5	47.1	42.5
Rochester.....	-4.9	-8.5	55.0	50.4
Syracuse.....	-13.9	-7.3	40.7	36.4
Northern New Jersey.....	-15.8	-14.1	41.0	38.4
Bridgeport.....	-16.3	-9.2	40.8	38.2
Elsewhere.....	-12.1	-3.7	36.7	33.1
Northern New York State.....	-12.7	.....	.....	.....
Southern New York State.....	-11.5	.....	.....	.....
Central New York State.....	-19.6	.....	.....	.....
Hudson River Valley District.....	-4.9	.....	.....	.....
Westchester and Stamford.....	-14.3	.....	.....	.....
Niagara Falls.....	-16.4	.....	.....	.....
All department stores.....	-13.4	-12.4	45.8	43.3
Apparel stores.....	-17.4	-11.8	43.9	41.4

Department Store Sales and Stocks, Second Federal Reserve District
(1923-25 average = 100)

	1937	1938		
	July	May	June	July
Sales, unadjusted.....	71	81	85	62
Sales, seasonally adjusted.....	99	84	89	88
Stocks, unadjusted.....	78	84	75	69
Stocks, seasonally adjusted.....	89	82	79	79

FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, SEPTEMBER 1, 1938

Business Conditions in the United States

(Summarized by the Board of Governors of the Federal Reserve System)

INDUSTRIAL activity increased in July, when there is usually a considerable decline, and rose somewhat further in the first three weeks of August.

PRODUCTION

Volume of industrial production increased from 77 per cent of the 1923-1925 average in June to 83 per cent in July, according to the Board's index which is adjusted for changes in the number of working days and for usual seasonal variations. Steel output rose sharply, lumber production also increased, and output of cement and glass was maintained. Automobile production declined somewhat further. In the first three weeks of August activity at steel mills was at a rate of around 40 per cent of capacity as compared with an average of 35 per cent in July, while in the automobile industry there was more than the usual seasonal reduction in output as producers closed plants somewhat earlier than in other recent years to prepare for the shift to new model production.

At textile mills activity in July showed a further rise, marked increases being reported in mill consumption of cotton and wool and in shipments of rayon yarn. Shoe production also increased substantially, following a decline in June.

Bituminous coal production advanced somewhat in July, and output of crude petroleum was at a much higher rate, reflecting chiefly a return to production on a six day week basis in Texas. Anthracite production decreased sharply following a considerable volume of output during May and June.

Value of construction contracts awarded in 37 eastern States showed little change from June to July, according to figures of the F. W. Dodge Corporation. Contracts for residential building continued to increase, and there was an increase also in commercial building, reflecting the award of a contract for a large office building. Factory construction remained at a low level and declines were reported in most other types of construction.

EMPLOYMENT

Factory employment and payrolls, which usually decline at this season, increased somewhat from the middle of June to the middle of July. There were substantial increases in the number employed at textile mills, clothing establishments, and shoe factories, and at railroad repair shops there was a slight increase. In the machinery and automobile industries employment declined somewhat further. In nonmanufacturing industries the principal changes in employment were a decrease at mines and an increase on the railroads.

AGRICULTURE

A domestic cotton crop of 12,000,000 bales was indicated on August 1, according to the Department of Agriculture. Last season the crop was 19,000,000 bales and, with world consumption of American cotton about 11,000,000 bales, the carryover increased sharply to 13,500,000 bales. The wheat crop was forecast at 956,000,000 bushels, as compared with 874,000,000 bushels harvested last year and usual domestic consumption of about 670,000,000 bushels. Production estimates for most other major crops were slightly under the large harvests of a year ago. Preliminary estimates by the Department of Agriculture indicate that cash farm income, including Government payments, will total \$7,500,000,000 for the calendar year 1938, a decline of 12 per cent from last year, which was the highest since 1929.

DISTRIBUTION

In July department store sales declined by less than the usual seasonal amount, while sales at variety stores and mail order houses decreased seasonally. Retail sales of automobiles increased somewhat, although there is ordinarily a decline in July. In the first half of August sales at department stores showed less than the usual seasonal rise.

Freight car loadings increased from June to July, reflecting chiefly larger shipments of grain, coal, and miscellaneous freight.

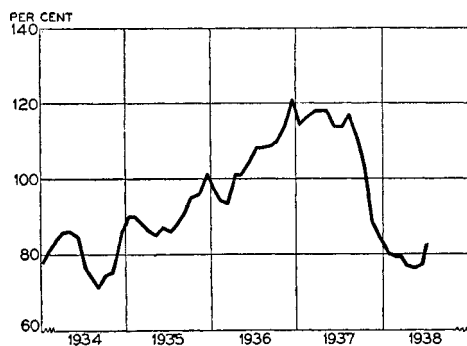
COMMODITY PRICES

Prices of grains, cotton, livestock, and meats were lower in the third week of August than in the middle of July, while prices of most industrial commodities were unchanged. Steel scrap advanced further in July, then declined somewhat in the first half of August. Cotton grey goods also declined in the early part of August, while prices of copper and rubber were maintained, following increases in the latter part of July.

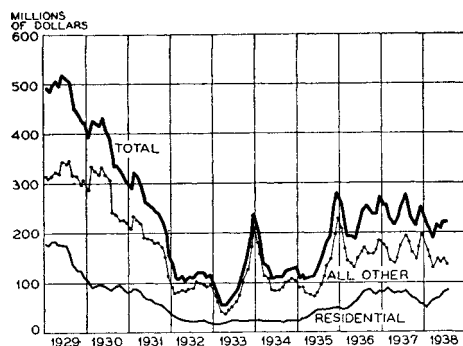
BANK CREDIT

Excess reserves of member banks declined by about \$230,000,000 in the five weeks ended August 17 to a total of \$2,930,000,000, following a steady growth from the middle of April to a peak on July 13. The decline in reserves was largely the result of an increase in Treasury deposits with the Reserve Banks, reflecting receipts from weekly Treasury bill offerings in excess of maturities and a sale of Reconstruction Finance Corporation notes. Most of the decrease in excess reserves was at city banks.

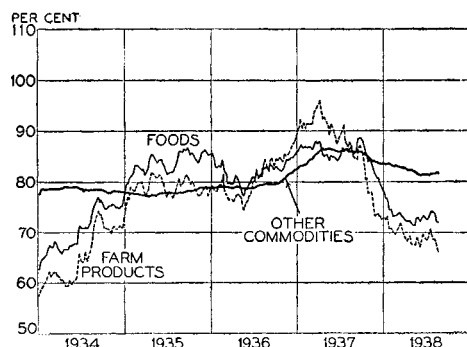
Following substantial declines since the autumn of last year, commercial loans and brokers loans at reporting member banks in 101 leading cities increased somewhat during the first half of August. Member banks in leading cities added about \$170,000,000 to their holdings of investments in the middle of July, mainly United States Government guaranteed obligations, but thereafter their holdings showed little change.



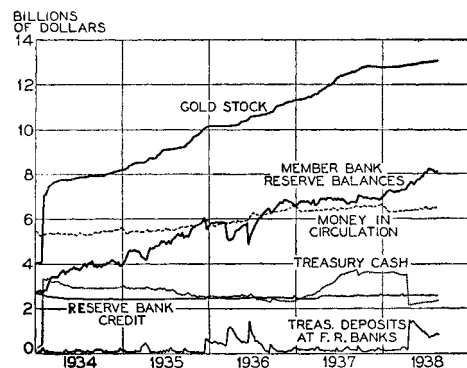
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



Value of Construction Contracts Awarded (Three month moving averages of F. W. Dodge Corporation data for 37 States, adjusted for seasonal variation)



Group Price Indexes of Bureau of Labor Statistics (1926 = 100 per cent)



Member Bank Reserves and Related Items (Latest figures are for August 17)